

Memorandum

HARMONISATION OF NSW/ACT B2B AND B2M PROCESSES – IMPLICATIONS FOR JGN AA



Security:	Protected	Date:	9 January 2015	File Ref:	310
To:	AER				
From:	Jemena Gas Networks				
Subject:	HARMONISATION OF NSW/ACT B2B AND B2M PROCESSES – IMPLICATIONS FOR JGN AA				

1. BACKGROUND

Since early 2014, AEMO, in consultation with retailers and gas distribution networks in NSW and the ACT, has been considering whether the business to business (B2B) and business to market operator (B2M) processes in the NSW/ACT retail market should be brought into line with those applying in other jurisdictions (the 'harmonisation project'). Over this period the harmonisation project has moved from the scoping phase to the design phase and while all indicators are that it will move to the implementation phase, AEMO is not due to make a final decision to implement the project and to make the necessary amendments to the NSW/ACT Retail Market Procedures (RMP) and the Gas Interface Protocol (GIP)¹ until 24 February 2015.

At the time JGN submitted its AA proposal (30 June 2014), the harmonisation project was still in the scoping phase, with AEMO not yet having made a decision to proceed to the design phase (see Table 1). There was therefore no certainty that the harmonisation project would proceed at the time the proposed AA was submitted. Nor was there any certainty about the scope of the changes that would be required if AEMO decided to proceed with the harmonisation project, or the likely timing of such changes. JGN was *not* therefore in a position to make provision for the costs of the harmonisation project (over and above the costs it expected to spend on replacing its GASS+ legacy IT system with the OneSAP system) in its 30 June 2014 AA proposal.

As the harmonisation project has moved from the scoping phase into the detailed design phase it has become clearer that the project will proceed and that JGN will incur additional costs installing the required IT infrastructure and complying with a range of new service standards and other regulatory obligations that will be given effect through the NSW/ACT RMP and GIP.

The remainder of this briefing note provides further detail on:

- what the harmonisation project entails and the current state of the project;
- the new obligations that JGN will be subject to as a result of the harmonisation project;
- JGN's current *indicative* estimate of the costs it expects to incur as a result of the harmonisation project;
- how JGN proposes to recover the costs associated with the harmonisation project; and
- when JGN expects to be able to provide the AER with its final forecast of the costs associated with the harmonisation project.

¹ The GIP is the protocol that governs the manner and form in which information is to be provided, notice given, notices or documents delivered and requests made as contemplated by the RMP.

2. HARMONISATION PROJECT

Under the B2B and B2M procedures that are currently in place in the NSW/ACT retail gas market, service order processing² between a distribution network and retailers is managed by remote login to the distribution network's system, while file transfer protocol facilities are used to manage transactions directed to and from AEMO. The approach employed in NSW/ACT differs markedly from the approach employed in other retail gas markets in eastern Australia, which are operated by AEMO using an FRC Hub. In simple terms, the FRC Hub is communication infrastructure that provides a gateway through which AEMO, retailers and distribution networks can deliver and receive standardised B2B and B2M messages for a range of different transactions using defined protocols and formats.³

While the harmonisation of the NSW/ACT B2B and B2M procedures has been on AEMO's agenda for some time,⁴ the costs of replacing distribution networks' existing IT infrastructure in NSW and the ACT to achieve this harmonisation was, until recently, considered too high to warrant the change. It was not therefore until early 2014 when JGN announced that it would be replacing its GASS+ system⁵ with the OneSAP system that the opportunity to achieve a greater degree of harmonisation became more credible.

Shortly after this announcement, AEMO formed the NSW/ACT Retail Gas Project (NARGP) Working Group, which consists of representatives from AEMO, retailers and NSW and ACT gas distribution networks (i.e. JGN, ActewAGL, APA and AGNL). In the early days of the project, members of NARGP worked closely with AEMO to develop a scoping document, which set out at a high level what the proposed changes to the NSW/ACT B2B and B2M procedures were likely to entail so that market participants could provide AEMO with estimates of the costs and benefits that were likely to be associated with the project. These estimates were then provided to the Nous Group, who was retained by AEMO to carry out an independent cost-benefit analysis of the proposed harmonisation of B2B and B2M procedures.

The Nous Group completed this cost-benefit analysis in mid-July 2014. In short, the Nous Group found that the quantitative and qualitative benefits of harmonisation (see **Error! Reference source not found.**) will outweigh the costs and that "the vast majority of NSW/ACT gas end customers will be better off" as a result of the proposed harmonisation.⁶ The Nous Group therefore recommended proceeding with the harmonisation of B2B and B2M procedures and noted that doing so would "support the NGO".⁷

² These services include things like account creation, customer transfer notification, network billing and the provision of meter data information.

³ The transactions are defined in a set of technical standards that are either specified in the GIP or Specification Pack.

⁴ JGN has been participating in AEMO's evaluation of the costs and benefits of harmonising B2B procedures since October 2010.

⁵ The GASS+ system is JGN's largest and core distribution network management, processing and data system.

⁶ Nous Group, NSW/ACT Gas Market Reform – Cost Benefit Analysis, 3 July 2014, pp. 6 and 9.

⁷ *ibid*, p. 9.

Box 1: Benefits of harmonising B2B and B2M procedures

Some of the harmonisation benefits that the Nous Group and AEMO have noted could be derived by participants are set out below:⁸

- Distribution networks – the avoidance of the costs associated with building a new customised NSW/ACT system and the benefits associated with streamlining new connection processes.
- Retailers:
 - improvements in service and process management, more accurate billing and workforce efficiencies, which will be achieved by standardising operations across jurisdictions; and
 - a reduction in the barriers to entry into the NSW and ACT retail markets because new entrants that are already operating in other retail markets will no longer have to establish a separate system to operate in NSW or the ACT.
- AEMO – improvements in issue resolution.
- All parties – improved reliability and integrity of the data and delivery processes.

The Nous Group's recommendation was formally endorsed by the AEMO Board on 31 July 2014 when it agreed to proceed to the design phase and to start considering the amendments that would need to be made to the NSW/ACT RMP and the GIP to give effect to the harmonisation project.⁹

Since entering into the design phase, the NARGP has worked closely with AEMO to identify:

- a) the scope of the proposed changes to the NSW/ACT B2B and B2M procedures, when the changes should take effect and whether the changes should apply to smaller distribution networks in NSW (e.g. APA's Central Ranges network and AGNL's Wagga network);
- b) any changes to ensure compliance with NECF, particularly around the energisation of new connections where customers request them directly from the distributor rather than via a retailer;
- c) any opportunities to harmonise the service levels applying to participant transactions in the NSW/ACT retail market with those applying in Victoria;
- d) any other market driven opportunities to modify the design of JGN's OneSAP system to simplify or improve market processes (e.g. streamlining the billing transaction format and allowing transfers on estimated reads rather than actual meter reads) – note that these changes have been largely driven by retailers and, to a lesser extent, by AEMO; and
- e) the amendments that would need to be made to the NSW/ACT RMP and the GIP to give effect to the changes in (a)-(d).

The current status of AEMO's consultation and decision-making process is set out in Table 1.

Table 1: AEMO's consultation and decision-making process

Project phase	Key Dates	Deliverables
Scoping phase	30 May 2014	AEMO published high level scoping documents on the proposed changes to B2B and B2M processes to enable initial costings to be carried out.
	30 June 2014	JGN submits its AA proposal.

⁸ *ibid*, p. 8 and AEMO, Proposed Procedure Change, 25 November 2014.

⁹ Note that amendments to the RMP and GIP must be considered by AEMO having recourse to the consultation and decision-making framework set out in Part 15B of the NGR.

Project phase	Key Dates	Deliverables
	15 July 2014	Nous Group completed its cost-benefit analysis of the proposed harmonisation of B2B and B2M processes for AEMO.
	31 July 2014	AEMO Board decided to proceed to the design phase of the harmonisation project.
Design phase and assessment of required changes to procedures	25 November 2014	AEMO published the proposed amendments to the RMP and GIP and called for comments by 11 December 2014.
	5 January 2015	AEMO is due to release its Impact and Implementation Report (IIR) for the proposed amendments to the RMP and GIP for consultation.
	3 February 2015	Consultation period for the IIR ends.
	24 February 2015	AEMO is due to publish its decision on whether to move to the implementation phase and to make the necessary changes to the RMP and GIP.
Implementation phase	February 2015 – April 2016	April 2016 target date for new systems and procedures to go live. In the first year distribution networks will only be required to use their 'reasonable endeavours' to comply with new service standards and other regulatory obligations. From April 2017 firm targets will apply.

Source: AEMO, Proposed Procedure Change, 25 November 2014.

As this table highlights, consultation on the harmonisation project is still ongoing and AEMO is not expected to make its final decision to implement the project and to make the necessary amendments to the NSW/ACT RMP and GIP until 24 February 2015. Refinements are therefore still being made to the proposed B2B and B2M procedures, service levels and other regulatory obligations. This refinement process is not expected to end until the consultation period closes and AEMO makes its final decision.

While refinements are still being made, there is broad agreement amongst stakeholders that:

- the new B2B and B2M processes and the design of the supporting IT infrastructure should be based on the Victorian model, albeit with some amendments to reflect jurisdictional specific arrangements, such as:
 - the contestability of hot water meters in NSW and the ACT;
 - the application of NECF obligations in NSW and the ACT;
 - the operation of the Short Term Trading Market (STTM) in Sydney; and
 - the ability to transfer customers on the basis of estimated reads in NSW and the ACT rather than actual reads and the ability for customers to carry out their own reads.
- the service levels applying to the timing of the provision of meter reading data, special meter reads and service order data, should be the same as those currently applied in Victoria; and
- the new systems, procedures and protocols should go live in April 2016, but in the first year distribution networks should only be required to comply with new obligations on a reasonable endeavours basis.

3. WHAT THE HARMONISATION PROJECT MEANS FOR JGN

If, as is expected, AEMO decides to proceed to the implementation stage of the harmonisation project by amending the NSW/ACT RMP and GIP, then JGN will be required to:¹⁰

1. Implement new IT hardware and software to give effect to the new:
 - a) B2B and B2M procedures in NSW/ACT, which will reflect the NSW/ACT jurisdictional specific arrangements outlined in the preceding section;

¹⁰ If JGN fails to do either of these things then AEMO may, under section 91MB of the National Gas Law, direct it to rectify the breach or to implement specific measures to ensure future compliance. AEMO may also refer the breach to the AER.

- b) service standards and other regulatory obligations; and
- c) other market driven process improvements.

This new IT infrastructure will need to be in place prior to April 2016 to enable testing to occur.

2. Comply with a number of new service levels for participant transactions from April 2016. Three of the more significant changes to service levels that JGN will subject to from April 2016 are outlined in Table 1.
3. Comply with NECF standards around the energisation of new connections, which, in effect, require distributors to energise new connections when retail contracts are in place.¹¹ For customer-initiated connections, this standard will require the use of the following two-step connection process:
 - a) When the customer requests a connection, JGN will have to install the meter and then prevent gas flow (e.g. by adding wadding to the meter to ensure it is not energised).
 - b) When the retail customer contract is in place, JGN will have to go back to the customer's site to energise the meter (e.g. by unwadding the meter).

Under the current approach, new connections can be energised even if there is no retail contract in place. The requirement to employ this two-step process for customer-initiated connections will therefore give rise to additional operating costs.

4. Comply with a range of other new regulatory obligations from April 2016. Some examples of these new obligations include the requirement for JGN to:
 - a) comply with the FRC Hub terms and conditions;
 - b) respond to any AEMO request for missing meter data;
 - c) process customer own reads within a defined time period;
 - d) provide AEMO with daily average heating values;
 - e) replace estimated reads with actual reads;
 - f) notify all market participants of next scheduled read date when meter reading route changes; and
 - g) use reasonable endeavours to make metering database accessible to market participants.

Table 1: Changes in service levels – Timing of data provision

Participant transactions	Proposed new service level	Existing service level in NSW/ACT RMP
Meter data provision (routine, customer and special reads)	JGN will be required to read meters on the next scheduled read date (NSRD) and to then comply with the following standards: Gas meter: JGN will be required to provide an actual read 1 business day after the NSRD, or an estimate 2 business days after the NSRD. Hot water meters: JGN will be required to provide an actual read 4 business days after the NSRD, or an estimate 5 business days after the NSRD.	Monthly or quarterly data to be provided in accordance with the following: at least 90% of data collected in any month is to be provided 5 business days after the meter read; and at least 98% of data collected in any month is provided 20 business days after the meter read.
Special meter reads (market notification)	Retailer to nominate date for a special meter read, which can be no earlier than 2 business days after the request. JGN will then be required to use reasonable	Special meter reads to be notified in at least 5 business days.

¹¹ This standard is reflected in clause 119XX of the National Gas Rules.

Participant transactions	Proposed new service level	Existing service level in NSW/ACT RMP
	endeavours to carry out the special meter read on the date requested and 1 business day after this date to provide either the meter reading, or a reason for not reading the meter and the next possible special meter read date.	
Service order completion (market notification)	JGN to notify AEMO of service completion no later than 5 days after the service order was completed.	No existing service level.

4. INDICATIVE ESTIMATE OF THE COSTS OF COMPLYING WITH THE NEW OBLIGATIONS

Because refinements are still being made to the proposed B2B and B2M procedures, service levels and other processes, protocols and regulatory obligations, JGN is not in a position at this point in time to provide the AER with a final forecast of the operating and capital expenditure associated with the harmonisation project. It has, however, done some preliminary work to develop an indicative estimate of the incremental costs that are likely to be incurred in:

- modifying the design of the OneSAP system to give effect to:
 - the NSW/ACT jurisdictional specific arrangements;
 - the new service levels for the provision of metering data, special meter reads and service order data;
 - NECF requirements in NSW and the ACT;
 - other new regulatory obligations in the NSW/ACT RMP and market driven improvements.
- implementing the business process changes that will be required to comply with:
 - the new service levels for the provision of metering data, special meter reads and service order data;
 - NECF requirements in NSW and the ACT; and
 - other new regulatory obligations in the NSW/ACT RMP.

These estimates are set out in Appendix 1.

5. HOW JGN PROPOSES TO RECOVER THE COSTS OF COMPLYING WITH THE NEW OBLIGATIONS

JGN proposes to recover the costs outlined in the preceding section as follows:

- the costs of modifying the design of the OneSAP software to accommodate all of the requirements outlined above would be recovered through the IT forecast capital expenditure allowance for 2015-16;
- the ongoing costs of complying with new service levels and other regulatory obligations would be recovered through an operating expenditure step change and, where appropriate, a capital expenditure allowance; and
- the costs of unwinding meters that are installed through a customer-initiated connection would be recovered through an upfront capital contribution and charged as a NECF charge rather than a distribution service charge under the Reference Service Agreement.

6. NEXT STEPS

JGN intends to provide the AER a robust estimate of the proposed expenditure on the harmonisation project in its response to the draft decision.

As outlined above, AEMO is not due to decide whether to proceed to the implementation phase of the harmonisation project until 24 February 2014. JGN will therefore have an opportunity to provide an updated opex step change estimate and forecast capital expenditure estimate in late February / early March 2015 (during the public submissions period). While this timing is not ideal given JGN's response to the AER's draft decision is due on 27 February, it is inextricably linked to the timing of AEMO's consultation and decision-making process, which is beyond JGN's control.

We would appreciate any feedback on our proposed approach to the cost recovery process during our meeting.

The table below contains JGN's indicative estimates of the incremental costs that are likely to be incurred in modifying the design of the OneSAP system and to implement the business process changes that will be required to comply with new service levels, NECF requirements and other new regulatory obligations in the NSW/ACT RMP. Before looking at this table, it is worth reiterating that the estimates are indicative only and may be revised between now and when JGN submits its final proposal to the AER on these costs.

Table 1: Indicative estimates of incremental costs associated with the harmonisation project (\$2014)

Source of costs	Types of costs	Incremental costs	
		Capex	Opex
Modifications to OneSAP system design	IT software design costs	One off capex in 2015-16: \$3 m - \$5 m	n.a.
Compliance with new service levels	Field service costs for meter management services and meter reading services driven by new standards. Back office costs for billing validation and exceptions costs, customer service, retailer support and service order completion costs	n.a.	\$1.5 m - \$2.5 m p.a. over the AA period
Compliance with NECF standard for energisation of new connections	Development of a two-step wadding process for customer-initiated connections.	n.a.	One off opex in 2015-16 \$0.15 m
	Field service cost for unwadding a newly connected meter once a retailer contract is in place.	n.a.	Ongoing cost \$130 to unwad each meter
Compliance with other minor modifications to existing market transactions and additional exception and issue resolution due to higher B2B and B2M transaction volumes	Back office costs to manage retailer enquiries and validation and issues resolution	n.a.	\$0.5 m pa over the AA period